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Direct Deposit Income Tax Refunds College Savings

Senate Bill 13-206

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Testimony to the Senate Finance Committee

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My name is Sarah Lipscomb, and I am the University of Denver Social Work Fellow at the Bell Policy Center. The Bell is a non-partisan, non-profit research and advocacy organization founded on progressive values and dedicated to expanding opportunity for all Coloradans.

The Bell Policy Center supports Senate Bill 13-206. This bill is an opportunity gain for all Coloradans, as it will increase families' ability to save for post-secondary education and promote a better-educated workforce. Higher education is a crucial building block to success, and this bill will create another avenue for families to ensure students have access to post-secondary education.

Increasing college savings leads to improved enrollment and graduation rates for students. Research shows that about 68 percent of young adults who lived with parents who had savings for college are enrolled or have completed college, versus 47 percent whose parents did not have savings.¹

Aside from providing savings for college, the act of opening and maintaining college savings accounts increases the expectation that students will acquire post-secondary education. Research shows that the expectation of college attendance is a significant indicator of college enrollment, possibly a stronger indicator than the amount of savings.² **Therefore, this research suggests the act of opening a college savings account will increase the chances of a student enrolling in college.**

Senate Bill 13-206 will improve families' access to college savings accounts. Families with existing accounts will gain access to another method of saving, and families without accounts will gain information on how to establish one through Colorado's individual income tax return form. This bill will allow families to contribute their tax refunds to existing CollegeInvest accounts. In addition, according to the Department of Higher Education, families will be able to use their refunds to establish a CollegeInvest account, which will increase access and opportunities for saving.³

Nearly half of the families who are not currently saving for college cite lack of knowledge about options for saving as the primary reason.⁴ Furthermore, 49 percent of families who are saving for college but not using 529 accounts (the CollegeInvest accounts in Colorado) were not familiar with these accounts and the benefits they provide.⁵ **The information distributed as a result of this bill will help more families understand their options for college savings accounts and could contribute to increased college savings.**

Access to higher education is crucial for Colorado's economy, as more jobs require at least some post-secondary education.⁶ By increasing saving opportunities, Colorado could help ensure a better-educated future workforce.

Allowing taxpayers to directly deposit their tax refunds into a CollegeInvest savings account will align Colorado with several other states that allow this practice, including Alaska, Arkansas, California, Delaware, Ohio, Oregon and Utah.

In fact, all of those states except Utah and Delaware go one step beyond direct deposit and allow refunds to be split between refunds and contributions to 529 savings accounts. Permitting refunds to be split allows more low- and middle-income families to participate in these savings plans. We understand that making changes now to allow Colorado to split refunds would be costly, but it is something that we should consider in the future.⁷

Colorado currently encourages low- and middle-income families to participate in a 529 plan by matching dollar-for-dollar their savings, up to \$500, and providing scholarships of \$2,000 a year for students whose accounts have \$25,000 or less.⁸

In closing, this bill is a net opportunity gain for Colorado, as it will provide another means for Colorado families to save for post-secondary education, which ultimately will strengthen the state's workforce and economy.

Thank you for the opportunity to share our thoughts with you, and we urge you to support Senate Bill 13-206. We thank Senators Hudak and Renfroe for bringing it to you today. If you have any questions, or if I can provide further information, please call me at 303.297.0456, ext. 222, or email me at lipscomb@bellpolicy.org.

¹ Elliott, William and Sondra Beverly, *Staying on Course: The Effects of Savings and Assets on the College Progress of Young Adults*, Center for Social Development, March 2010, <http://csd.wustl.edu/Publications/Documents/RB10-13.pdf>

² Ibid.

³ Newville, David, *The Potential of Inclusive 529 College Savings Plans*, College Savings Initiative, May 2010, http://collegesavings.newamerica.net/sites/newamerica.net/files/policydocs/The_Potential_of_Inclusive_529s.pdf

⁴ *How America Saves for college*, Sallie Mae in partnership with Gallup, 2010, https://www.salliemae.com/assets/Core/how-America-saves/how_america_saves_100410_final3.pdf

⁵ Ibid.

⁶ Carnevale, Anthony P., Nichile Smith and Jeff Strohl, *Help Wanted: Projections of Jobs and Education Requirements through 2018*, Georgetown University Center on Education and the Workforce, June 2010, <http://www9.georgetown.edu/grad/gppi/hpi/cew/pdfs/State-LevelAnalysis-web.pdf>

⁷ Newville, David, *The Potential of Inclusive 529 College Savings Plans*, College Savings Initiative, May 2010, http://collegesavings.newamerica.net/sites/newamerica.net/files/policydocs/The_Potential_of_Inclusive_529s.pdf

⁸ *Direct Portfolio College Savings Plan: Program Match on Contributions*, SavingforCollege.com, n.d. http://www.savingforcollege.com/529_plan_details/index.php?page=plan_details&plan_id=146